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RUEATRS/DEPT OF TREASURY
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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000305

SIPDIS

SENSITIVE
SIPDIS

ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: DECL: 02/13/2017
TAGS: ECON EPET ENRG EFIN VE
SUBJECT: A BILLION HERE, A BILLION THERE, AND PRETTY SOON
YOU'RE TALKING ABOUT REAL MONEY

REF: A. CARACAS 59

¶B. CARACAS 0183
¶C. CARACAS 0241

Classified By: Classified by Economic Counselor Andrew N. Bowen for rea
sons 1.5(b), (d).

¶1. (C) SUMMARY: Econoffs met with the BNP Paribas Representative to discuss the recent announcement of a USD 1 billion revolving credit facility arranged by BNP for PDVSA. The Minister of Finance recently announced plans for up to a USD 3.5 billion PDVSA bond issue, and PDVSA has also arranged for loans of USD 1-2 billion more. Along with late payments to service providers and contractors, all signs are pointing toward a PDVSA with current cash flow problems. END SUMMARY.

¶2. (C) On February 7, econoffs met with Richard Sentkar, the Representative of BNP Paribas in Venezuela (STRICTLY PROTECT THROUGHOUT). PDVSA announced on February 2 that it had obtained a USD 1 billion revolving line of credit and BNP Paribas was the lead bank on the deal. As explained by Sentkar, PDVSA requested the USD 1 billion loan to cover temporary cash flow issues, and the expectation is that this will allow them more leeway in their cash management. When pressed, he admitted that PDVSA could use this money for other purposes, even transfer it all to the country's National Development Fund (FONDEN), without him knowing. The loan has a duration of one year, and while Sentkar would not divulge the interest rate, a local Energy consultancy reported that it was 115 points over LIBOR.

¶3. (C) Sentkar noted that a USD 1.7 billion deal would have been finalized on January 9, but after Chavez' speech on January 8, during which he announced plans to nationalize various sectors of the Venezuelan economy (reftel A), some syndicate members lowered their contributions or backed out entirely. After negotiation, BNP was able to obtain commitments for the USD 1 billion figure. The syndicate includes U.S. banks JPMorgan Chase and Citigroup, which put up USD 100 million and USD 75 million, respectively. Sentkar said that he insisted on having American and Western banks included on the deal. He also noted that there are few, if any, institutions in Venezuela that can offer these types of products and hinted at the potential for future deals.

¶4. (C) In total, PDVSA may have obtained as much as USD 3 billion in the past few weeks in financing. Along with the BNP Paribas deal, Japan's version of the Ex-Im bank (JBIC) is providing USD 1 billion in credits (reftel C) and rumors are that a little-known German bank is working with a local Venezuelan Bank to come up with another USD 1 billion. The Minister of Finance, Rodrigo Cabezas announced on February 7 that PDVSA will also issue up to USD 3.5 billion in dollar-denominated bonds in the local market, probably in the first quarter of 2007.

¶5. (C) PDVSA appears to have serious cash flow issues (reftel B) due to its increasing commitments to off-budget funds, missions and social programs, as well as its tax and royalty obligations. An estimate of PDVSA's 2006 budget by the Center for Economic Investigation finds that, in 2006, PDVSA transferred nearly USD 6.9 billion to FONDEN and another USD 3 billion to the BRV's missions. These figures probably do not include the time and money spent by PDVSA on its own, in-house social and political projects. According to the Center's estimates, PDVSA had a loss of almost USD 3.7 billion in 2006. In addition, a local oil analyst told Petroleum Attache on February 5 that PDVSA owes its joint venture partners in the former operating service agreement fields between USD 4 and 6.5 billion.

¶6. (C) COMMENT: Although there is increasing evidence that PDVSA has cash flow problems, the severity of these problems remains to be seen. With the Venezuelan oil basket creeping back towards USD 50/barrel and end of year and election year spending subsiding, PDVSA's balance sheet may begin to improve in the short term. The result of the on-going negotiations in the Faja belt to turn the Strategic Associations (SA) into joint ventures will play an important

role here. Heliodoro Quintero, a former Venezuelan OPEC governor, estimated in the February 6 edition of the daily "Tal Cual" that it could cost the BRV between USD 6-8 billion to purchase 60 percent stakes in all of the SA's. Where this money will come from is anybody's guess. If the International Oil Companies refuse to play ball, PDSVA may win a pyrrhic victory, left with fields and equipment it is incapable of running, thus leading to a steep decline in the country's oil revenues. In a worst case scenario, the BRV and PDVSA would also face international arbitration.

¶7. (C) COMMENT CONTINUED: As in our previous meeting, Sentkar was forthright and seemed almost relieved to have someone to talk to about the environment in Venezuela. He appears to be the only expat working for BNP here and at the end of the meeting he offered to meet again in three weeks. As a western banker with whom it appears the BRV and PDSVA feel comfortable doing business, he may provide future insight into the BRV and its increasingly large financing needs. END COMMENT.

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